

EXECUTIVE SECRETARIAT

Routing Slip

TO:		ACTION	INFO	DATE	INITIAL
1	DCI				
2	DDCI				
3	EXDIR				
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8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/EEO				
14	D/Pers				
15	D/OEA				
16	C/PAD/OEA				
17	SA/IA				
18	AO/DCI				
19	C/IPD/OIS				
20	✓ No/ECN		✓		
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SUSPENSE

Date

Remarks:

NSC review completed.

3637 (10-81)

Executive Secretary

12/6/82

Date

STAT

Copied to:

OGI

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Route:

C/NIC

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NIO/AL - Hans

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9854/82

THE WHITE HOUSE
WASHINGTON

Executive Registry

82-13324

CABINET AFFAIRS STAFFING MEMORANDUM

DATE: 12/3/82 NUMBER: 077636CA DUE BY:

SUBJECT: Cabinet Council on Economic Affairs - Tuesday, December 7, 1982

8:45 a.m. in the Roosevelt Room

	ACTION	FYI		ACTION	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	Baker	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Interior	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Kudlow	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input checked="" type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/Boggs	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
	<input type="checkbox"/>	<input type="checkbox"/>	CCNRE/Boggs	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS: The CCEA will meet Tuesday, December 7 at 8:45 a.m. in the Roosevelt Room. The agenda and paper is attached.

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RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☒ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800



THE WHITE HOUSE

WASHINGTON

December 3, 1982

MEMORANDUM FOR THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Paper for the December 7 Meeting

The agenda and paper for the December 7 meeting of the Cabinet Council on Economic Affairs are attached. The meeting is scheduled for 8:45 a.m. in the Roosevelt Room.

The first agenda item is the budget treatment of the activities of the Federal Financing Bank. A paper from Lawrence A. Kudlow, chairman of the Federal Credit Policy Working Group, summarizing the key points of the discussion of this issue is attached.

The second agenda item is a report of the Working Group on Capital Formation, chaired by Martin Feldstein. No papers will be circulated for this agenda item in advance of the meeting.

Attachments

THE WHITE HOUSE
WASHINGTON

THE CABINET COUNCIL ON ECONOMIC AFFAIRS

December 7, 1982

8:45 a.m.

Roosevelt Room

AGENDA

1. Federal Credit Policy: The Federal Financing Bank (CM#113)
2. Report of the Working Group on Capital Formation (CM#325)



Approved For Release 2009/04/15 : CIA-RDP84T00109R000100060002-3
EXECUTIVE OFFICE OF THE PRESIDENT

CM#113

OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

December 3, 1982

MEMORANDUM TO THE CABINET COUNCIL ON ECONOMIC AFFAIRS

FROM: Lawrence A. Kudlow

LAK

SUBJECT: Putting the FFB On-Budget -- A Summary Recommendation

In two previous meetings the Working Group on Federal Credit has recommended to the CCEA that the government move toward a consolidated cash budget which would reflect all off-budget cash outlays. At the request of the Chairman Pro Tempore, in preparation for a final decision on the matter, this memorandum attempts to summarize the key points of the discussion.

- 1) In recent years the U.S. money and credit markets have been asked to finance an extraordinary increase in the volume of Federal spending and borrowing, in significant part because the government has produced a massive, far-flung system of what are essentially direct banking activities. As a result, the Federal government has become the dominant consumer of the nation's financial resources.
 - o In 1983, total Federal borrowing (on- and off-budget) is projected to absorb 83% of net private savings (gross private savings less depreciation).
 - o The estimated 1983 absorption rate is not an aberration, but it continues a trend begun in the 1970's rising from 25% in 1971 to projected current levels exceeding three-fourths of net private savings.

- 2) The growing network of Federal banking activities, one of the principal sources of Federal debt creation, occurs in three distinct categories:
- o Direct lending by on-budget agencies such as the CCC and the Export-Import Bank, which appear in budget outlay and deficit totals.
 - o Direct lending by both on-and off-budget agencies, such as the Farmers Home Administration (on-budget) or Rural Telephone Bank (off-budget), which is removed from the budget by the sale of loan assets to the FFB or by law.
 - o FFB direct loan originations to fund guarantees issued by other agencies. The largest programs in this category are Foreign Military Sales-FFB loan, FFB-Rural Electrification Authority utility financing loans and TVA loan guarantees purchased by the FFB. All of these outlays appear off-budget as a result of the FFB transaction.

Composition of Direct Federal Banking Activity

	<u>New Obligations</u>	<u>Net Outlays</u>	<u>Outstandings</u>
A) On-budget direct loans	49%	21%	51%
B) Direct agency loans recorded off-budget	24%	30%	29%
C) FFB originations of agency loan guarantees recorded off-budget	27%	49%	20%
Memorandum: D) Percent recorded on-budget	49%	21%	51%
E) Percent recorded off-budget ...	51%	79%	49%

- 3) The predominant component of off-budget spending and borrowing is the FFB. Created in 1974 to consolidate the separate public borrowing efforts of Federal agencies, the FFB has become a frequently used mechanism for placing Federal programs off-budget, thereby avoiding the degree of scrutiny and control afforded on-budget programs. As the data indicate, the rate of expansion in the off-budget area has been far greater than the on-budget area.

Comparative Growth Rates, 1976 - 1981

	<u>Nominal Growth (Percent)</u>	<u>Real Growth (Percent)</u>
A) GNP	11.1	2.9
B) Federal on-budget	11.8	3.6
C) FFB	27.6	19.1
D) Off-budget total	22.2	13.2

FFB and Off-budget Outlays
(\$ billions)

	<u>1973</u>	<u>1976</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
FFB	--	5.9	13.2	14.5	21.0
Total Off-budget	0.1	7.3	12.5	14.2	21.0

- 4) The crucial issue with respect to the FFB and the excessive growth of off-budget spending and borrowing is the failure to establish any reliable budget control.

- o This control problem is dramatized by the large differences between the Administration's March 1981 budget level for off-budget programs and the current services baseline for FY 1984.

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>4-year total</u>
A) March 1981 off-budget outlay ceiling	10.7	9.5	7.4	6.5	34.1
B) FY 1984 current services baseline	<u>17.0</u>	<u>16.7</u>	<u>14.9</u>	<u>15.8</u>	<u>64.4</u>
C) Increase	+6.3	+7.2	+7.5	+9.3	+30.3

- o Unless off-budget lending is tied to the fiscal bottom line (budget outlays), there will be little Congressional incentive to reduce such programs as REA and Farmer's Home Administration lending in line with Administration budget requests, and a growing temptation to push more activities off-budget as was done in the case of the strategic petroleum reserve.
- o Under present deteriorating fiscal conditions, it is imperative to maximize budget control on all fronts, and to close off all current and prospective spending escape routes that could feed Treasury borrowing beyond the massive sums already projected.

- 5) Against this backdrop, the Working Group on Federal Credit recommends to the Cabinet Council on Economic Affairs that:
- o The Federal government move toward a consolidated cash budget which would reflect all of the off-budget cash outlays of the government by including in the budget all Federal Financing Bank activities. (Other off-budget Federal entities, such as the Strategic Petroleum Reserve, the U.S. Railway Association and the Rural Telephone Bank, also would be on-budget.)
 - o Outlays currently attributed to the FFB be charged to the agencies responsible for generating those outlays.
 - o All Federal financing activities, including guaranteed securities, should, over time, be consolidated through the Treasury. There should be no sales of full faith and credit obligations by any Federal agency except the Treasury Department. This consolidation should include all obligations that would ordinarily be financed in investment securities markets.
 - o The Administration submit legislation that would make these changes effective beginning FY 1984.
- 6) There is one remaining problem related to the issue: a concern raised by some members of the CCEA that the shift to a consolidated cash budget will raise the reported on-budget deficit at a time when the deficit situation is already a difficult economic and political problem. The FFB current services and proposed policy baselines are:

<u>Net Off-Budget Outlays</u>						
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>Total</u>
Current services	16.7	14.9	15.8	16.0	15.0	78.4
Tentative policy guidance (reductions)	<u>-4.7</u>	<u>-5.6</u>	<u>-6.5</u>	<u>-6.3</u>	<u>-6.6</u>	<u>29.7</u>
Net off-budget policy outlays...	12.0	9.3	9.3	9.7	8.4	48.7

- o In assessing this problem, it is important to note that the outlays already exist, and thus it is only a change in accounting procedures which is being recommended. Hence it is unlikely that the fiscal discussion will be affected in any material way.
 - Moreover, the Federal borrowing requirement would not be affected in as much as off-budget FFB outlays are already financed by direct Treasury borrowing.
 - Also, the public has always been well aware of the consolidated borrowing requirement of the Treasury, as analysts in the business and financial communities routinely calculate the FFB borrowing requirement as part of the Treasury's overall financing schedule. This also holds true for staff analysts on Capitol Hill.
 - Inclusion of off-budget outlays will bring a half-dozen major spending and lending programs under the Congressional Budget Resolution discipline. The prospects for achieving Administration proposed savings as tentatively projected above will be substantially improved if Reconciliation and 302(b) appropriation ceiling pressures are brought to bear on program levels in these areas.

7) Recommendation:

That the Cabinet Council on Economic Affairs endorse the recommendations of the Working Group as outlined above.

_____ Approve

_____ Disapprove